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SUBJECT: "WHO'S WHO" IN ASSISTANCE FUNDING TO ARMENIA

SUMMARY

1. International assistance has been the primary driver of development in Armenia since the country gained independence from the Soviet Union in 1991. In the early 1990s, Armenia suffered devastating losses in its industrial sector and severe deterioration of its public infrastructure. Initially, donors (including foreign governments, international organizations and private individuals) focused primarily on humanitarian assistance programs. As the situation in the country improved, donors moved towards providing technical assistance and concessionary lending. Key donors in Armenia since 1991 have included the USG (more than USD 1.6 billion), the World Bank (USD 896 million), the European Union (USD 439 million), the IMF (USD 320 million), Germany (approximately USD 213.6 million) and Great Britain (USD 33.6 million). This cable provides an overview of each of the major donors' assistance programs, focusing on bi-lateral assistance from foreign governments, multi-lateral assistance provided by international organizations and donations made by private donors (including the American-Armenian community). End Summary.

THE USG, STILL ARMENIA'S LARGEST DONOR

2. The USG Assistance program continues to be the largest bilateral assistance program in Armenia and has active programs in almost every sector of the economy and society. Since 1992, USG assistance to Armenia has totaled approximately USD 1.6 billion. USG assistance primarily supports civil society reform, democracy and elections, economic and social restructuring, security and law enforcement, judicial reform, cross-sectoral initiatives, science and technical programs, and military assistance. Humanitarian assistance, which originally made up the majority of the USG aid budget, now constitutes approximately 2 percent of overall annual USG aid. The USG and GOAM review the status of ongoing assistance projects during the semi-annual meetings of the U.S.-Armenia Task Force on Economic Cooperation (USATF) and track progress through Plans of Action signed by both sides. There are USG-funded projects in all ten regions of the country. A detailed breakdown of current USG projects in Armenia (and links to USG assistance reports and fact sheets) is available on the internet at www.usa.am/assistance.

EUROPEANS: DEVELOPMENT, NUCLEAR SAFETY, HUMANITARIAN

3. According to data provided by the European Commission (EC), European structures have provided approximately USD 439 million (EUR 386.39 million) in assistance to Armenia since 1991. (Note: The majority of European Union assistance to Armenia is administered through the European Commission, which maintains a local representative in Yerevan. End Note.) Of the EU's total funding to date, approximately one third (USD 136.3 million) has gone toward humanitarian assistance projects. The technical assistance program to the countries of Eastern Europe and Central Asia (TACIS) accounts for an additional USD 113.62 million (EUR 100 million) and focuses primarily on legal and regulatory reform, support for small and medium sized enterprises and the private sector and support for Armenian accession to the WTO (which Armenia joined in February 2003). The TACIS program is scheduled to sponsor programs in Armenia through December 2006. EU aid also supports a Food Security Program, which has a three-year budget of approximately USD 116.23 million (EUR 102.3 million). This program provides significant budgetary support to key agricultural and social sectors in Armenia. The EC has allocated approximately USD 33 million (EUR 29 million) to its Nuclear Safety Program which includes programs to enhance the safety of the Mestamor nuclear power plant (most notably to purchase and install spare parts and hardware, conduct regular inspections and regular safety assessments). For 2006, the EU/EC estimated its assistance budget at

USD 38 million (EUR 32 million). Detailed information regarding the EC assistance can be found on the internet at <http://www.mfe.am/mfeengweb/intcoop/tacis.htm>.

GERMANS: ENERGY, FINANCE AND ENVIRONMENT

14. German government assistance to Armenia began in 1995 and most German assistance is channeled through the German Development Bank (KfW). Local KfW offices report that German assistance from 1995 to the present has totaled approximately USD 169 million (EUR 150 million), of which USD 39 million (EUR 35 million) has been allocated to technical assistance in the energy, financial, private business, water, health and environmental sectors. As a result of bilateral negotiations, KfW allocated USD 26.5 million (EUR 22 million) in 2005-2006 for projects in mortgage development, renewable energy projects, and rehabilitation of water and wastewater systems. The foreign debt of the GOAM to Germany as of June 2005 was USD 61.7 million (5.5 percent of total GOAM external debt). Armenia also receives technical assistance from Germany through the German Development Cooperation Enterprise (GTZ). According to GTZ local office data, the total amount of technical assistance allotted to Armenia through GTZ since 1993 is USD 44.63 million (EUR 39.46 million), including USD 6 million (EUR 5 million) for 2005-2006 programs. The GOAM hosts regular coordination sessions with the German government to coordinate GTZ and KfW assistance. More detailed information on KfW and GTZ projects is available on the following websites: <http://www.mfe.am/mfeengweb/intcoop/aboutkfw.pdf> and <http://www.gtz.de/en/weltweit/europa-kaukasus-zentralasien/5468.htm>.

GREAT BRITAIN: CONFLICT RESOLUTION, CIVIL SERVICE

15. The Embassy of Great Britain and its Department for International Development (DFID) have provided approximately USD 33.6 million (British Pound Sterling (GBP) 20 million) in development assistance projects since 1995. UK assistance supports training for the civil service, programs in the financial sector, technical assistance for the government on customs and tax policy, conflict prevention programs and agricultural development. The UK also provided humanitarian and housing support for refugees from the Nagorno-Karabakh conflict living in Armenia. UK assistance programs for the period of 2000-2007 included budgets totaling USD 20 million (GBP 12 million). More detailed information on UK assistance can be found on the British Embassy website at <http://britishembassy.am>.

JAPAN: LOANS AND ENERGY

16. The Government of Japan has provided two loans to Armenia through the Japan Bank for International Cooperation (JBIC). The first loan was for a 1999 Electricity Transmission and Distribution project and totaled USD 46 million (Japanese Yen (JPY) 5.4 billion). The second JBIC loan supports the Yerevan Combined Cycle Co-generation Plant project (2005) and amounts to USD 149 million (JPY 16 billion). The GOAM recently reported it has not used approximately USD 8 million of the first loan installment. Implementation for the second loan project has not yet started. The Japanese government also co-finances World Bank projects through grants that have totaled approximately USD 15 million over the last ten years. According to representatives from the International Relations Department of the Armenian Ministry of Agriculture, since 1997 the Japanese government has made seven grants to the GOAM for a total of USD 18 million (JPY 2 billion) to purchase agricultural equipment and fertilizers. According to the same source, the GOAM expects to receive additional grants from Japan in 2006 for similar projects. More details on JBIC loans to Armenia are available on the internet at http://www.jbic.go.jp/english/base/release/oe_cf/1999/0218-e.php and <http://www.jbic.go.jp/autocontents/english/news/2005/0010022>.

IRAN: ENERGY

17. While Iranian bi-lateral assistance to Armenia does not rank high vis-a-vis other international donors, concessional lending from Iran in the energy sector is a sensitive foreign policy issue and receives significant attention -- especially in light of recent problems regarding natural gas supply from Russia. Iran has loaned the GOAM USD 30 million for construction of an Iran-Armenia gas pipeline. In September 2005, the GOAM announced that Iran would provide an additional USD 150 million to support the refurbishment of an Armenian thermal power plant. The Iranians also donated USD 3.5 million for the construction of a wind power plant, and agreed to loan the Armenian Ministry of Agriculture USD 15 million to construct a dairy processing facility.

GREECE: HELPING ARMENIA'S GREEKS

18. According to press reports, the Ministry of Internal Affairs of Greece has partially completed implementation of five projects in Armenia's north-western province of Lori totaling USD 24 million (EUR 20 million). The programs focus on the Lori province since it is home to an ethnic Greek population in Armenia (estimated at nearly 1,200). Most of Armenia's Greek population resides in small, isolated villages outside the town of Alaverdi. The five projects in Lori include road and bridge construction, repair and construction of a gym and two swimming pools. The Greek Embassy in Armenia also contributes modestly to the operating costs of the Hellenic Medical Center (located in Alaverdi) which provides free primary medical care to the needy population in Lori (ethnic Greeks as well as Armenians). The USG and the U.S.-based World Council of Hellenes also contribute to portions of the project.

WORLD BANK: THE LARGEST MULTILATERAL PLAYER

19. According to information provided by the World Bank, it has loaned Armenia USD 896 million since 1992 for 40 projects in the areas of infrastructure development, social, environment, agriculture, law and public administration. The majority of World Bank assistance targets infrastructure development (mainly irrigation, water and sewer systems). In 2005 the World Bank approved three new projects valued at USD 55 million. The projects include an Urban Heating Program (USD 15 million), Rural Enterprise and Small Scale Commercial Agriculture Development Program (USD 20 million) and the Yerevan Water and Wastewater Project (USD 20 million). As of June 2005, Armenia owes the World Bank USD 751.1 million (67.4 percent of Armenia's total foreign debt). The World Bank also supports school curriculum development and printing of school text books. Detailed information regarding World Bank projects in Armenia is available at <http://www.worldbank.org.am>

INTERNATIONAL MONETARY FUND (IMF)

110. According to official statistics published by the IMF, it has loaned Armenia USD 320 million (SDR 222.2 million) for macroeconomic stabilization and poverty reduction, from which a little more than USD 200 million (SDR 162.9 million) has been received and processed by the GOAM. (Note: SDR stands for Special Drawing Rights, a monetary unit used by the IMF based on a basket of international currencies including the US dollar, Euro, Japanese Yen, and British Pound Sterling. As of the fourth quarter of 2005, SDR 1 = USD 1.4454. End Note.) Currently, the GOAM is negotiating a new three-year loan valued at USD 33 million (SDR 23 million) aimed at tax and customs services reform and support for the financial sector. As of mid-2005, the foreign debt owed by Armenia to the IMF was USD 193 million (17.3 percent of total foreign debt). The GOAM has significantly improved customs revenue collection during the first half of the 2005 in part due to IMF-funded reform programs and enhanced by the state-of-the art equipment provided to the Customs Service by the USG. More information on IMF assistance is available on the internet at <http://www.mfe.am/mfeengweb/intcoop/hajamer1.pdf>.

UNITED NATIONS: CROSS-SECTOR PROGRAMS

¶11. United Nations assistance to Armenia for 2004-2005 totaled USD 10 million (including funding for the UN Development Program, the UN High Commissioner for Refugees, UNFPA and the UN World Food Program). Since it began operating in Armenia in 1993, the UN Development Program's main focus has been democratic governance, poverty reduction, energy and environment, HIV/AIDS. UNDP programming in Armenia has totaled USD 21 million to date. UNHCR provides humanitarian assistance to refugees from Azerbaijan by providing housing and humanitarian support and remains one of the most high-profile components of the UN's operation in Armenia.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

¶12. According to official IFAD data, IFAD has implemented three projects in Armenia and disbursed loans valued at USD 36.5 million for local agricultural development. In 2005 IFAD approved the Rural Areas Development Program to support local agriculture. The program is financed by an IFAD loan of USD 15.3 million and co-financing of USD 5 million from the OPEC Fund for International Development. Full information on IFAD projects in Armenia is posted on the IFAD official website at http://www.ifad.org/operations/projects/regions/PN/AM_11.htm.

LINCY FOUNDATION, THE BIGGEST PRIVATE DONOR

¶13. The Lincy Foundation, financed by American-Armenian millionaire Kirk Kirkorian, has donated over USD 150 million to Armenia since 2000. Lincy Foundation grants have sponsored road construction (USD 73 million), earthquake zone recovery (USD 45 million), road upgrades within Yerevan (USD 15 million) and repair and rehabilitation of cultural centers. In addition, the Foundation has provided USD 21 million loans for the small and medium sized business development. In 2005 the Lincy Foundation announced a new USD 60 million grant aimed at Yerevan streets repair, road construction and remodeling and repair of local schools.

DIASPORA ASSISTANCE

¶14. The Armenian Diaspora continues to support a number of development projects (including financial assistance, technical assistance and in-kind contributions) in a number of sectors. This assistance ranges from contributions through large Diaspora organizations to donations for independent, small-size projects. While there is no official estimate of the total amount of Diaspora funding, one loose GOAM survey of 14 Diaspora organizations puts the amount of funding from 1989-1999 at more than USD 630 million. Diaspora support flights (facilitated through groups like the United Armenia Fund or the All-Armenia Fund) continued throughout the period of the energy crises of the early 1990s and the period of armed conflict with Azerbaijan over Nagorno-Karabakh. Many Diasporans are changing their approach to assistance to Armenia from strictly humanitarian donations to include initiatives such as expanding business opportunities, investing in emerging sectors and training and educational opportunities for aspiring Armenian youth.

¶15. The following are some of the largest Diaspora-funded organizations with annual programs active in Armenia: United Armenia Fund (UAF) (since 1989, the UAF has sent USD 415 million of humanitarian assistance to Armenia via 135 airlifts and 1,237 sea containers); Armenian General Benevolent Union (main sponsor of the American University of Armenia, sponsor of cultural groups and hospitals); Armenian Red Cross (social, medical and refugee support); Fund for Armenian Relief (focused on humanitarian programs in the health and social sector); Aznavour For Armenia (targeted assistance in the social and health sectors) and Medical Outreach for Armenia (health assistance programs); and the All-Armenia Fund (humanitarian projects and infrastructure projects in Armenia and other parts of the region where there are large Armenian populations).

FOREIGN ASSISTANCE INFLUENCES LOCAL EMPLOYMENT MARKET

16. Since 1988, international donors implementing assistance projects have contributed to a significant part of Armenia's economy and have required goods and services that have in effect created a kind of "development industry" in Armenia. These programs have created jobs for well-trained Armenians who speak foreign languages and have project management or administrative skills. According to local economists a significant portion of Armenia's middle class is made up of employees (direct or indirect) of donor organizations or their grantees. An informal survey of only the direct-hire staffs of the World Bank, United Nations, IMF and USG development agencies (not including sub-grantees) reveals that over 1,300 Armenians are employed full-time as a result of international assistance funding. (Note: With more than 500 sub-grantee organizations active in Armenia, the number of Armenians who earn a living from assistance financing could be as much as 3-4 times higher than this number. End Note.)

COMMENT: WHILE EVIDENT, HARD NUMBERS HARD TO FIND

17. Despite the fact that Armenia has been a major recipient of foreign assistance for more than a decade, there is still no single, reliable official source summarizing annual international aid flows into the country. The GOAM has attempted to establish a consolidated database to track foreign assistance on several occasions without success. Some donors, notably the Russian and the Chinese Governments, have expressed an unwillingness to disclose information to the public about the scope of their assistance programs (specifically budgetary information). Donor assistance will continue to be an important part of Armenia's economy and its democratic and economic development. A more detailed system for tracking assistance flows would better enable the GOAM, and the development community, to map out assistance goals and measure programs' effectiveness.
EVANS